

FDIC State Profile

Winter 2005

Virginia

Virginia's employment growth continues to moderate.

- For the second consecutive quarter, payroll employment growth dipped below the national average. In third quarter 2005, year-over-year job growth in the state was 1.3 percent, which was slightly below the previous quarter (see Chart 1). The state's labor markets have loosened slightly, but jobless rates are still well below the national average. Northern Virginia continues to produce most of the state's jobs, but other areas with strong growth include **Winchester** and **Harrisonburg** with employment up 4.6 percent and 3.0 percent, respectively. **Danville** continued to shed jobs, primarily in its textile and apparel sectors.

Strong home price appreciation has reduced affordability.

- According to the Office of Federal Housing Enterprise Oversight, Virginia home prices appreciated 18.7 percent for the 12 months ending September 30, 2005. Rapid appreciation during the past five years has pushed home prices to a record level of 5.5 times household income. Moreover, affordability has been greatly reduced as only 37 percent of households in Virginia have annual incomes of at least \$65,344, which is needed to purchase the median-priced home of \$279,942 using conventional financing (see Chart 2). In contrast, 65 percent of households had sufficient income to purchase the median-priced home at year-end 2001. Rising mortgage interest rates could further reduce affordability.

Housing markets may be in a state of transition.

- A number of factors such as reduced affordability, higher mortgage interest rates, and lower homebuyer optimism are starting to weigh on the housing market. Recent trends suggest that an inflection point may have been reached in some local housing markets as they have transitioned from a seller's to a buyer's market. In the Northern Virginia housing market, monthly sales of existing homes have been declining from year ago levels since May 2005 (see Chart 3). At the same time, monthly inventories of unsold homes have seen dramatic increases, with a rise of over 250 percent in November 2005. While inventory levels and days on market are still below late-1990s' levels,

Chart 1: Virginia's Employment Growth Has Moderated

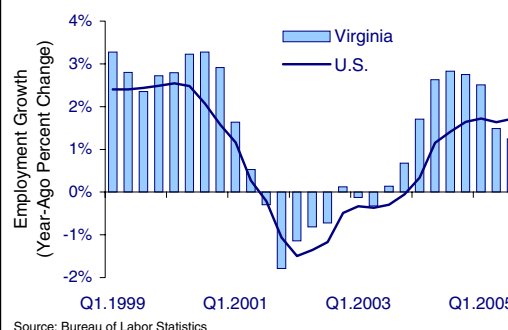


Chart 2: Fewer Virginia Households Can Afford a Median-Priced Home

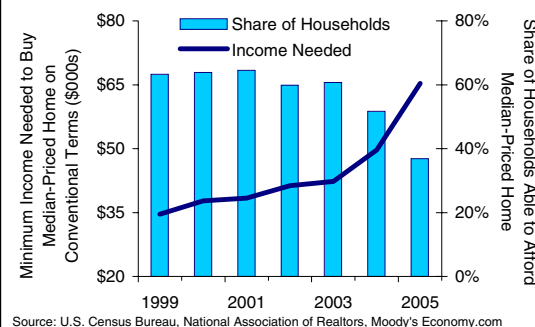
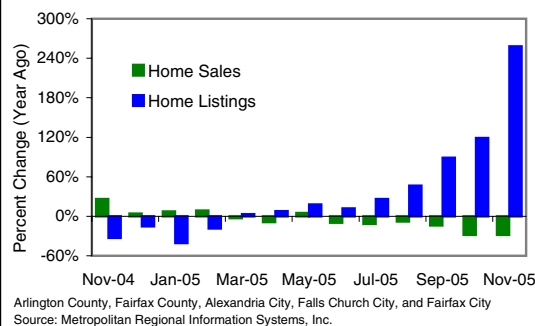


Chart 3: Existing Home Sales are Slowing and Inventories are Rising in Northern Virginia



State Profile

the huge rise in inventory may portend future price softening and longer marketing periods.

Rising energy costs may hamper the state's economic growth.

- Energy costs have increased substantially in recent years. Nationwide, over 9 percent of wages and salaries are spent on energy—the highest since the late 1980s. In Virginia, per capita residential expenditures are estimated at \$1,465 and industry experts expect the burden of higher energy prices to rise even further in 2006 (see Chart 4). During late 2005, Virginia utilities endured natural gas price increases of 33 percent to 64 percent, which was passed directly to customers. Even prior to Hurricane Katrina, manufacturers in Virginia were experiencing pressure on profits due to increased fuel costs.

Financial pressures may weigh on consumers.

- The combination of rising energy costs, interest rates, insurance premiums, taxes, and debt servicing requirements may stress consumers' finances. Prior to the implementation of the new bankruptcy law in mid-October 2005, Virginia experienced an increase in personal bankruptcy filings, which will likely be followed by a decline later in the year. However, the accumulating pressures building on consumers may contribute to a rise in filings in 2006.

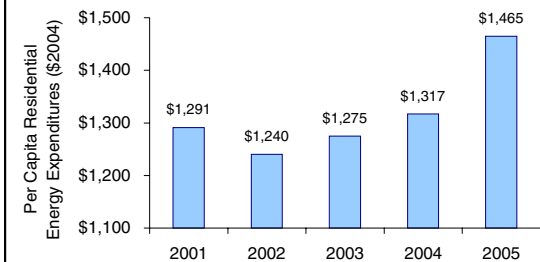
Branch office openings have increased.

- Annual Summary of Deposit data collected by the FDIC as of June 30, 2005, shows that Virginia added 61 banking offices from a year ago. In contrast, the state had 52 fewer offices in 2004. Virginia ranked 16th nationally for office growth with a rate of 2.5 percent during 2005. Most of the growth was concentrated in Northern Virginia. Far more branches were opened in urban areas resulting in a higher branch density per population than most rural counties (see Map 1).

Banking conditions in the state of Virginia remain sound.

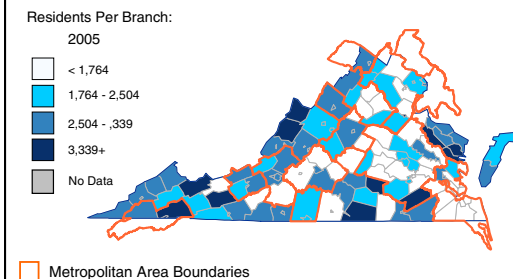
- Overall, Virginia community banks continued their solid performance.¹ Net income rose 14 percent year-over-year to finish the third quarter 2005 at a record high level of \$244 million. For third quarter 2005, return on assets gained 4 basis points to 1.17 percent as net interest margins expanded 10 basis points to 4.16 percent from a year ago (see Chart 5).

Chart 4: Virginia Residents Are Paying Significantly Higher Energy Bills Because of the Run-up in Energy Prices



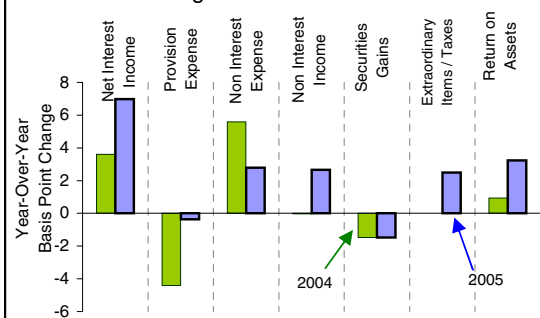
Sources: Energy Information Administration, Moody's Economy.Com, FDIC

Map 1: Many Urban Counties Have a Low Number of Residents Per Branch



Source: FDIC, Bureau of the Census, Moody's Economy.com

Chart 5: Virginia Community Bank Return on Assets Benefited from Higher Net Interest Income



Source: FDIC, third quarter data.

¹Commercial banks with assets less than \$1 billion (excludes specialty and de novo banks).

Virginia at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	Q3-04
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.5%	2.8%	2.5%	0.1%
Manufacturing (8%)	-0.5%	-0.2%	-0.6%	-1.9%	-4.7%
Other (non-manufacturing) Goods-Producing (7%)	4.4%	3.6%	5.7%	5.9%	1.2%
Private Service-Producing (67%)	1.3%	1.7%	3.2%	2.8%	0.6%
Government (18%)	0.5%	0.7%	2.1%	2.2%	0.4%
Unemployment Rate (% of labor force)	3.6	3.6	3.7	3.7	4.1

Other Indicators	Q3-05	Q2-05	Q3-04	2004	Q3-04
Personal Income	N/A	7.8%	7.8%	7.8%	4.2%
Single-Family Home Permits	-0.4%	15.6%	4.2%	2.3%	2.4%
Multifamily Building Permits	-24.6%	-42.4%	77.4%	34.0%	-19.9%
Existing Home Sales	-3.6%	3.8%	16.2%	17.5%	5.5%
Home Price Index	18.7%	21.7%	18.5%	15.2%	8.1%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	6.00	5.31	5.04	5.43	6.07

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	Q3-04
Institutions (#)	140	140	140	140	141
Total Assets (in millions)	261,433	250,478	209,191	221,220	181,595
New Institutions (# < 3 years)	10	12	12	12	8
Subchapter S Institutions	1	1	1	1	0

Asset Quality	Q3-05	Q2-05	Q3-04	2004	Q3-04
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.05	0.93	1.14	1.00	1.52
ALLL/Total Loans (median %)	1.15	1.14	1.17	1.16	1.21
ALLL/Noncurrent Loans (median multiple)	3.21	3.22	2.75	2.78	2.36
Net Loan Losses / Total Loans (median %)	0.03	0.02	0.05	0.07	0.11

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	Q3-04
Tier 1 Leverage (median %)	8.95	8.84	8.71	8.73	8.50
Return on Assets (median %)	1.12	1.09	1.11	1.03	1.07
Pretax Return on Assets (median %)	1.62	1.52	1.56	1.46	1.52
Net Interest Margin (median %)	4.21	4.18	3.99	3.94	3.95
Yield on Earning Assets (median %)	6.25	6.02	5.71	5.65	5.95
Cost of Funding Earning Assets (median %)	2.17	1.98	1.67	1.68	1.93
Provisions to Avg. Assets (median %)	0.14	0.15	0.17	0.18	0.20
Noninterest Income to Avg. Assets (median %)	0.64	0.61	0.63	0.64	0.65
Overhead to Avg. Assets (median %)	2.90	2.94	2.90	2.93	2.91

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	Q3-04
Loans to Assets (median %)	71.1	72.4	71.0	70.9	66.7
Noncore Funding to Assets (median %)	19.1	19.0	18.0	18.2	16.4
Long-term Assets to Assets (median %, call filers)	15.8	14.9	16.3	15.1	19.1
Brokered Deposits (number of institutions)	34	34	32	36	30
Brokered Deposits to Assets (median % for those above)	5.2	4.5	5.3	4.1	2.8

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	Q3-04
Commercial and Industrial	73.8	72.4	76.2	74.3	84.3
Commercial Real Estate	330.1	318.0	299.4	323.9	289.5
<i>Construction & Development</i>	69.4	71.3	60.6	65.0	49.6
<i>Multifamily Residential Real Estate</i>	9.9	9.5	7.2	8.4	6.9
<i>Nonresidential Real Estate</i>	197.1	192.0	192.7	194.6	198.9
Residential Real Estate	236.1	241.8	244.2	247.1	244.1
Consumer	41.0	45.5	46.6	44.8	51.0
Agriculture	5.5	6.0	5.4	5.5	6.2

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Washington-Arlington-Alexandria, DC-VA-MD-WV	103	130,985	< \$250 million	70 (50%)
Richmond, VA	36	33,475	\$250 million to \$1 billion	53 (37.9%)
Virginia Beach-Norfolk-Newport News, VA-NC	31	16,042	\$1 billion to \$10 billion	10 (7.1%)
Roanoke, VA	16	4,794	> \$10 billion	7 (5%)
Kingsport-Bristol-Bristol, TN-VA	26	3,893		